

Happiness Pays

PaeTec Communications is fiercely dedicated to two things: worker contentment and inexorable growth. One commitment feeds the other, and a relentlessly focused CEO takes personal responsibility for both

NO KIDDING: Customer calls to the Network Operations Center (left) are answered before the second ring. Boss Arunas Chesonis (above) insists.

The muted cry of frustration

was on page five—the self-appraisal section—of Mike Trippani's performance evaluation. In most corporations, such a sound might have been considered the white noise of success—a gratifying indicator that Trippani, a low-level manager, was working hard outside his comfort zone. Not at PaeTec Communications.

Reviewing the appraisal, Arunas Chesonis, the 41-year-old CEO of this five-year-old telecom, recognized that Trippani was nervous. Someone else had become director of the Network Operations Center (NOC), where Trippani worked. He worried that he had no way to move up. Chesonis walked downstairs and took him aside.

"What is this crap?" Chesonis asked him. "You're one of the keys to future growth. You have a future here."

It wasn't a long meeting, but it was all Trippani needed. It mattered that the CEO read his appraisal and cared enough about him to find him and talk things over.

"I thought Mike was genuinely nervous. 'Where am I going to go as a manager? Can I go to different departments?' We worked it out," Chesonis says, sitting in his office. He's tall, fit but not lean, a little baby-faced, and deceptively soft-spoken. He wears a navy sweater vest with a PaeTec logo, a pair of Dockers, an old striped shirt with rolled-up sleeves, and loafers. "It's perfectly normal for me to show up and talk with anyone in the company. Mike and I are in the same fantasy football league here. My twelve-year-old son, Erik, is in it too. Erik will call people who work here and say, 'Mr. Trippani, Dad says you should trade Jamal Lewis or else he will send you to Alaska."

PaeTec, a privately held company based just outside Rochester, N.Y., offers voice and data services to midsize companies, as well as vertical markets such as hotels and universities. Last year PaeTec was second in the Deloitte Technology Fast 500, a ranking of the fastest-growing technology companies in North America. (Previous winners include eBay and Yahoo.) These rankings are based on average percentage revenue growth over five years; from 1998 through 2002, PaeTec grew 192,701%—from \$150,000 in revenue in 1998 to \$289 million in 2002. Take out the first couple of years (during which PaeTec's emphasis was on building infrastructure) and the average growth rate for the past three years is still 250%. Revenue is projected to exceed \$360 million for fiscal 2003, and PaeTec will post its first profit.

In 1998, when it was founded, PaeTec comprised five founders and fewer than a dozen additional people. Now it employs more than 1,000. Its dramatic growth is the product, in part, of a corporate culture that has remained the same from day one. Everything at PaeTec revolves around respect for the employee. The word *customer* may be a little more prominent in the mission statement, but PaeTec puts employees first—and then watches them voluntarily put customers before themselves.

As a result, the company has flourished during what Chesonis refers to as the nuclear winter of telecommunications. The worst downturn in the history of the industry, going on three years now, has left more than half a million telecommunications workers out of work. Through it all, PaeTec has kept growing. The notion of putting the employee first may not be entirely new, but in such times, it's not exactly intuitive, either. PaeTec is becoming a model for how to succeed by doing it.

Mike Trippani is a case in point. His attitude matters, because he and his team have more direct contact with customers than anyone else at PaeTec. He works as a supervisor in the Network Operations Center: the NOC, pronounced "knock." It's where PaeTec answers the phone with a human voice—not a computerized call management system—after one ring when customers call to scream, query, or otherwise plea for help. That's when PaeTec begins to sell its real product: service. "We want outrageous levels of quality at Wal-Mart prices," says Jack Baron, executive vice president and chief marketing officer. "Most M.B.A.'s will tell you it can't be done. They'll say you can't do both. We do."

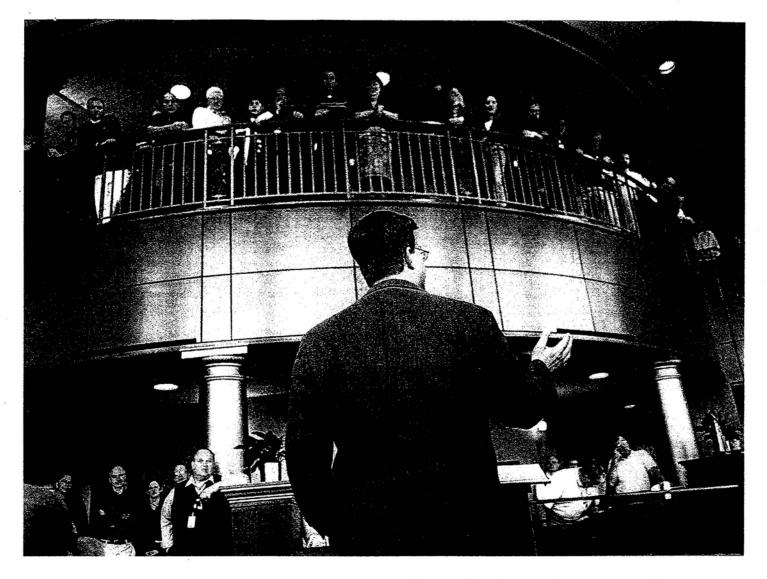
PaeTec gets 4,000 problem calls per month. That's a lot of problems for a company dedicated to high-quality service. In the NOC, where the company solves those problems, people like Mike Trippani have helped give PaeTec a monthly customer retention rate of 99.5%, or better, since it was founded in 1998. And no matter who you talk to, they all say that record can be traced back to this philosophy of Employees First. Here's how it works.

1. No Royalty The company's directors have created an organization at which people relate to one another as equals. There are no perks at PaeTec for anyone, from the CEO on down. If you join a country club, you pay for it yourself. If you need a washroom, walk down the hall. If you show up late, you park down the hill. If you're expecting a huge bonus because you're higher up, forget it: Until recently everyone got 10%, period. Now that PaeTec is profitable, directors get 20%.

DO YOUR SHARE: In the NOC (below), as elsewhere in PaeTec, workers are expected to offer help instinctively. At Friday-moming conference calls (opposite), Chesonis gets an audience of half the company.



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Chesonis writes notes, sends e-mails, sticks his head through the door to say thanks. He is constantly aware of everyone.

The company makes a point—and makes a big deal internally—of limiting the gap between the compensation of management and nonmanagement workers. PaeTec's founders own the whole show. But they regularly and generously distribute stock options to employees, which will make them owners if and when the company goes public. "We put cash in and we have stock, where the rest of the employees have options," says Dick Ottalagana, executive vice president and the first person Chesonis hired when he founded PaeTec. "It's fairness. If we take it all, what's in it for them?" Ottalagana, 60, is the elder statesman of the organization. He was instrumental in setting up many of the processes that form the backbone of the company's profitability. Clearly, he's going to do very well in an IPO. But the message is: I'm a leader of this company, so, yes, I will get rich, but I will not get obscenely rich at the expense of everyone else.

2. Recognition, Recognition, Recognition In a sense, the compensation policies are only the most tangible aspect of a broader policy of recognition. Recognition happens contin-

of a broader policy of recognition. Recognition happens continuously at PaeTec. Chesonis is known for writing small notes, sending e-mails, sticking his head through the door, to thank someone for a job well-done. He's constantly aware of everyone.

"We give out Maestro Awards," Ottalagana says. "You may be awarded a hundred stock options for doing something exceptional. The Chairman Award is for people consistently performing at a very high level. You get a Rolex watch, or a Four Seasons vacation, plus \$1,000 to help with the tax impact. A \$5,000 award."

Perhaps, though, the most modest forms of recognition have the most pervasive and lasting impact. Chesonis walks around the building constantly—Management by Walking Around, in the old Tom Peters formulation. Marion Wyand, vice president of engineering, recalls: "One day, Arunas came into my office and said, 'Mary, who on your team worked the hardest?' Well, this one lady, Sarah Spencer, had been working on some problems we had with vendors. He comes in with a flower arrangement as tall as she is, thanks her, and says, 'Marion told me how hard you worked this week.' You can't measure the sort of impact that has."

3. Everyone Shares There is almost no limit to how much departments and people are expected to communicate at PaeTec. Every other Friday, Chesonis conducts a company-

wide conference call. He usually gets 500 to 600 participants. He divulges details of financing, acquisition plans, profits, and other things usually kept in the boardroom. It's an enormous show of respect for all employees. He recognizes workers. He invites questions. Usually he closes with a joke.

Chesonis wants every department sharing knowledge with every other. He stays in touch, hour by hour, with what's happening both in the company and in the personal lives of his people. He answers e-mail from anyone. He expects everyone else to do the same. If you want to know more about how another department operates, you just walk in, sit down, and listen. People are expected to keep their doors open. Tom FitzGerald, vice president of operations, calls it a "teaching telecom." It's a policy that sometimes has to be enforced. Scott Magee, 28, started in the NOC and quickly proved himself more than capable. He asked FitzGerald for a raise.

"I'd closed more tickets than most," Magee recalls. "Tom said, 'I don't know why I shouldn't fire you right now. You're hurting everybody by not sharing what you know."

As FitzGerald recalls: "Our philosophy is to give somebody a raise before they ask for it. Scott is brilliant. But he was holding back. I told him, 'You think you can't go beyond anybody else because you think you'll insult them. I'm thinking of letting you go. From now on you're bubble boy, and I want to see dramatic things from you.' The bubble had to burst. Scott didn't want anybody to know what he knew."

He started sharing what he knew. No one took offense, and he got his raise. Magee is now a systems engineer.

4. Eliminate Boundaries Sharing knowledge comes naturally for most people at Pae'Icc because everyone is expected to think full circle—a term Tom FitzGerald uses constantly with his people in the NOC. Full circle means thinking about how a task will, or won't, benefit a customer. The company wants porous walls between departments and employees, between home life and work life, and between PaeTec and its customers.

This lack of boundaries extends up and down the organizational chart, as well. One new hire, in his first week in the NOC, needed help with a customer problem: "I'd been here just over a week, and I can call a vice president and ask him for help," he marvels. "At my former employer we had to prove we needed to engage somebody from another department. Here I just pick up the phone."

The main priority is fixing problems and serving customers—not guarding territory or pulling rank. On any given day, the expert in the matter at hand, the leader, could be a clerk or a VP or the CEO.

It's assumed that workers know what needs to be done better than anyone who manages them. You are presumed a hero until proved otherwise.

5. Learning From the Bottom Up When departments collaborate, organizational learning rises up naturally from below. Jason Elston, the manager of the NOC, says: "One thing that endeared this place to me from the start, you could have a good idea and that good idea can become company policy."

The culture of cooperation, of knowledge sharing—all the ways respect for employees is manifested—helps generate products and services as a function of doing daily business, not as a separate research and development operation. Wyand says Mike Meath brought a new idea to her cross-disciplinary team. He suggested PaeTec create something called a managed router service, through which the company could monitor and do maintenance on a customer's voice and data services remotely; many PaeTec customers weren't equipped to do these things themselves.

"He decided his team could do that," Wyand says. "So we implemented this service and realized more than \$50,000 in revenue in the first six months. He got a Maestro Award for that."

It's assumed that workers know what needs to be done better than anyone who manages them. At PaeTec, the motto is: *Trust* but verify. You are presumed a hero until proved otherwise.

6. Play Hard and Play Together People respond to this kind of respect by voluntarily working, and playing, into the night. Playing together is essential. The company celebrates every holiday with employee and customer gatherings. At Halloween employees show up in costume and their kids trick-or-treat from office to office. Customers' kids do the same. Last year, the employee with the best costume received 100 stock options. So did the employee whose child had the best children's costume.

Recently, in a daylong event, employees formed teams and went on a scavenger hunt around Rochester. "A scavenger hunt like this is unheard of anywhere else," says Carlos Cong, a recent hire in the NOC. "They rented us limousines. I've done team building, but never anything like that. It was all about us, not work. Just get to know one another. We spent the entire day together. They provided food, an open bar. I talked to people I've never talked to before, people I wouldn't talk to during the day."

7. People and Family Come First The goofy, warm quality of life at PaeTec reflects the one policy that employees most quickly and frequently cite as the company's distinguishing feature: the way the organization honors family life. The boundaries between work and home are just as permeable as those between departments. Arunas Chesonis is a fanatical family man. He named the company using the initials of his wife and children: PaeTec means Pam-Adam-Erik-Tessa-Emma-Chesonis. When he travels, every night, without fail, he thinks up and faxes a pop quiz to each of his four children. For Emma, it might be a request to name three blond princesses. For Erik, it could be a sports or math quiz.

That devotion to family finds expression in everything PaeTec does. "When I first came here," Cong says, "I was here for two days and then had to be gone for a week for my brother's wedding. No problem. I worked two days and had a week off, with pay."

Jason Elston mentions a technician who was new to the company. "His wife had a tough pregnancy," Elston recounts. "We gave him all the time he needed to be with her. He told us, 'Guys, you have an employee for life. My old company, I would have lost my job for being away so much. Two, I would have had no benefits to pay for what we're going through."

As Elston points out, that will pay off in terms of customers.

"Just thinking like a human being, why would you not want to extend yourself for an employee?" he asks, "That guy will run through a wall for me."

Those are the basic premises on which PaeTec is run. Obviously, the approach works. But it wouldn't have succeeded to the extent that it has if the company hadn't started with a host of unique advantages. It was founded by dozens of people who had already spent a decade or more at ACC, a Rochester-based long-distance start-up. At the age of 27, Chesonis became a president at ACC; he led it through a period of strong growth into the '90s. When ACC was eventually sold to Teleport, which in turn sold the company to AT&T, he left, in the spring of 1998. It seems incredible now, but Chesonis and a number of top executives from ACC were not held to any noncompete agreement. It seemed the new ACC management didn't believe they had the ability to raise capital to become a significant threat. "They bought us out of our noncompetes," says Ottalagana. "They gave us cash. We were free to do whatever we wanted. Some of us joked that they thought we were a bunch of chicken farmers."

Enough talent slipped away to PaeTec that AT&T-ACC recognized its mistake and filed suit against Chesonis, Ottalagana, and Baron, arguing they did have a noncompete obligation. The case was eventually settled out of court. The lawsuit's chief effect, according to Chesonis and the others, was to give PaeTec a boost. It helped them raise millions more in venture capital. "People came to us with more money," Baron says. "They knew we had to be doing something right to get AT&T after us that way."

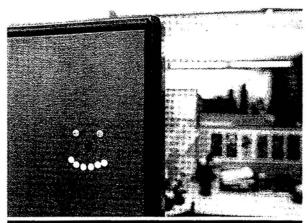
The first two dozen recruits quit their jobs at ACC before they knew exactly what job they would have at PaeTec: that was the level of faith they had in Chesonis. Molly Korndoerfer, vice president for customer service, had worked with Chesonis at ACC. "I told him he could count on me," she says. "I went in that Monday and gave my notice. There wasn't even a company at that point, yet it was the most secure decision I've ever made."

The core team invested the millions they made on the sale of ACC into the new company, and raised another \$350 million from angel investors, venture capitalists, and banks. Chesonis was a star in the telecom community. When Blackstone and Madison Dearborn and other venture capitalists and banks anted up, they were investing in a proven leader.

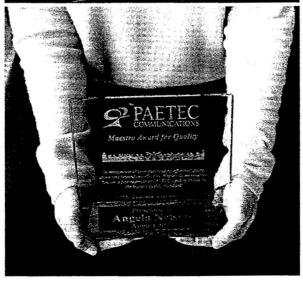
The company made only \$150,000 in revenue its first year, because everyone spent month after month doing little more than refining the business plan, waiting until it could get its switches installed around the country. Chesonis and his team created the company using only the latest technology, spending only as much as they needed to and no more. Even five years from now—with 10 years of business under its belt—PaeTec expects to own only 35% of the network it uses to provide service. This will allow it to continue to sink all its money into sales and service.

"We have enormous tactical strengths," Chesonis says. "No unions, entirely new systems, no legacy systems. The big telecoms are built to be monopolies. We're built to be competitive."

For all of these unique advantages, the crucial one at PaeTec is Chesonis himself. In his office he has two prominent symbols: One is a photograph of himself posing with Jack Welch. The other is a chessboard. The Jack Welch smile calls attention to itself like a logo that badly needs an update. The chessboard is far more significant, for the game is a spot-on







HAPPY IS AS HAPPY DOES: A lot of young people work at PaeTec, and the company encourages them to express themselves—as long as they pick up on that first ring. PaeTec also encourages, with rewards ranging from a nice note to a cruise vacation, exceptional efforts to make customers happy. The coveted Maestro Award (bottom) comes with stock options.

NO BAGGAGE: Chesonis and his team built the PaeTec system from scratch; employees aren't encumbered by old technologies or systems.

Witness the Network Operations Center, the soul of the operation.

metaphor for the way Chesonis runs his business. He is a strong leader who doesn't feel the need to stick his chest out. In a room full of 20 managers, on a Friday morning, he could pass for another grunt from IT, keeping the seat warm for the CEO. He isn't charismatic, doesn't light up the room. But when he starts to speak, all the energy in the room somehow converges at his chair. Click, click, click, the agenda items get ticked off. He speaks quickly, urgently, casually, giving off dull sparks of annoyance and then joking, softly, taking blame for one thing or another, all in one breath. Failure doesn't bug him. It's when people don't get the idea.

"I don't want to hear how no one tells people anything! When you have access to information through paetec.com....Have you hired someone lately? Who has? Okay. How many of them have gone through paetec.com on their lunch hours? Don't know. That's the kind of stuff we need to do as managers. Everyone says no one tells me anything. There's a responsibility we all have as managers to force that upon them. You're gonna get your stock options this year, all employees this year, there's going to be a 20-question quiz on the Web to get your options. You don't pass that quiz, it's open book, you don't get your options. Take it 20 times, I don't care, God bless you. Fair enough, fair enough. End of my speech. Okay, now I go into happy mode."

He outlines how he wants managers to invite people outside the company to company parties. Then, "No. 6. Budget, budget, budget. This is a happy thing. There's cash rolling in all the time. It's amazing. So all of you master sandbaggers out there—we are going to run the business the next five years just the same way we've been running it. We are not going to go crazy on expenses. We are not going to spend 80 grand for a sign. I have people who want to spend 80 grand for a sign. Have you lost your mind? How about getting some nice workstations for the new employees? Just remember, and this is a fun thing, when you have money, that's when you get that much tougher on what you spend money on. We're not going back to the dot-com era. Just think, if it was all your money, what would you spend it on? On a sign? Of course not. Nice to do won't happen. Have to do will happen. Want to do may happen. Nice to do, cross it out."

The subliminal message is: Wake up. It is your money, people. You own this company. Now, a sign for the building isn't an ice sculpture leaking vodka. It would seem to at least qualify as a want to do. But not for Chesonis, because a sign doesn't function.

The level of silence both in the conference room and on the conference call line, where other managers around the country are listening, is surprising. There is joking and conversation by the end of the meeting, but not much. The electrical charge is still high. Nobody steps forward to challenge him other than Ottalagana, at one point. And that moment passes quickly.

Chesonis's wife, Pam, says she challenged him a lot when they worked together at ACC. She works now part-time, on vendor contracts in a little, undecorated office. She says her husband is actually a shy person who gets very nervous when he has to do public speaking. But nothing about running PaeTec bothers him—not firing people (he calls it "pruning the rosebush"), not dealing with people from Wall Street who want to take him public, not a lawsuit from AT&T. His only serious weakness may be his impatience with people who don't quickly recognize the move



he's set up for them on the board. "When people don't get it, he gets unhappy," his wife says. "He definitely has a temper. If somebody doesn't get it, they'll see that side of him."

Chesonis has stamped the company with his values, particularly his orientation toward family. But he does it not simply because it's the right thing to do. It makes people more productive. There's a payoff. It has little to do with kindness, or sensitivity, or feelings. It's simply the most intelligent approach: to put people first and reap the rewards of having a team of loyal, devoted employees. He understands what motivates people, what creates loyalty to the mission, and he plays the chess game to win, by treating people with respect. When they don't perform, they don't stay. He may be nice, but he's also tough and demanding.

If you put in a day, or a week, or a month, at PaeTec, you begin to realize what people are actually trying to keep alive here. You can list off all the elements of the company's success, but the intangible assets are the ones that matter most to people here. Everyone knows that, in some way, the company is still in its infancy, unspoiled, a small and fertile garden. They tread lightly through it. It isn't just the financial ownership that drives this care. It's the sense nearly everyone has that he or she is working in a place with an unusual kind of goodwill that flows down from the top and then rises back up from the bottom. You have the sense that each employee is doing everything possible, going to any length, not to spoil that goodwill.

"I took a cut in pay to come here because I wanted to be a part of the company, under Arunas's leadership again, and I was willing to do that," says Marion Wyand. "It's not all about the money. I get up every morning and I am excited about my job. I want my employees to be so excited that the customer wishes he or she worked here."

"Customers trust us," Bono says. "You become the go-to person for that company. We want the customer to need our help. We want to hear the customer say, 'I need you to tell me where to go.' I had a CEO who has known me for years, he called me because his fax machine didn't work. It's telecommunications, right? I called his administrative assistant. 'What is going on with the fax? It's probably out of paper.' She said, 'I don't know why he calls you with this stuff. I think he just wants to talk with you.'"

David Dorsey is a freelance writer living in Rochester, N.Y., and working on his second novel. *The Force*, his nonfiction book about a year in the life of a top Xerox sales force, was named one of the top business books of 1994 by Purincer Week

